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USDOC FOR 4420/USFCS/OCEA/EAP/LDROKER
USDOC FOR 3132/USFCS/OIO/EAP/ADAVENPORT
TREASURY FOR OASIA/LMOGHTADER
TREASURY PLEASE PASS TO OCC/AMCMAHON
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN

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SUBJECT: Economic Briefing for February 2006

REF: (A) TAIPEI 514

11. This cable summarizes selected recent economic events in Taiwan in February 2006:

- Economic growth and expansion;
- Cross-Strait links are expanding;
- Listed companies repatriate earnings;
- Foreign investors acquire financial institutions;
- Duties assigned to ministers without portfolio;
- Taiwan promoting economic relations with India;
- Taiwan attracts foreign portfolio investment;
- Five-year alternative energy program;
- National Communication Commission set up.

Economic Growth Driven by Export Expansion

12. Reftel predicted that the export boom beginning in Q4 of 2005 would cause Taiwan authorities to adjust upward Taiwan's official estimates of growth in 2005 and 2006. On February 23, Taiwan's Statistical Bureau (SB) raised its estimate of 2005 economic growth to 4.09% from 3.8% estimated in November 2005, and raised its estimate of 2006 growth from 4.08% to 4.25%. The estimate of 2006 growth would be even higher than 4.25% except for banks tightening issuance and usage of credit cards and cash cards at the request of Taiwan's legislature to resolve social problems caused by debt delinquency. Per capita GNP in 2006 will increase from US\$15,676 in 2005 to US\$16,208, comparable to

levels prevailing in some OECD nations, such as Greece. In January 2006, seasonally adjusted export growth rose to 21% up steadily from a single-digit rate in early 2005 and 14.5% in Q4. Adjusted industrial growth in January 2006 increased to 20.5%, also steadily up to 20% from merely 1% in Q1 and 9.5% in Q4 of 2005. Unemployment in January 2006 declined to 3.89% in December from a two-year peak of 4.36% in August 2005. (Unemployment figures for January 2006 were not available for this report.) Meanwhile, the inflation rate dropped from 3.6% in August 2005 to 2.65% in January 2006.

Cross-Strait Mini-links Expanding

13. Mini-links operations (i.e., ferryboats from Taiwan's Kinmen Island to the PRC port of Xiamen) were not affected by Taiwan - Xiamen charter flights during the Lunar New Year holiday (January 20 - February 13), according to the Kinmen County Harbor Administration. A total of 49,000 passengers traveled on Kinmen - Xiamen ferryboats during the 2006 holiday, up 31 percent from the same holiday period in 2005. Two liberalization measures contributed to the growth. On January 1, 2006, the PRC began permitting Fujian residents one-day tours in Kinmen. Also in January 2006, Taiwan authorities started allowing people registered as Kinmen residents before 2001 (even if not residing there now) and residents' relatives to travel to Xiamen by ferryboat. Mini-link ferryboat transportation in 2005 grew 41% to 4,276 voyages, and ferryboat passengers increased nearly 30% to 277,000 persons.

Listed Companies Repatriate Earnings from China

14. Over 80% of the 1,100 companies listed on Taiwan's stock market have invested in China. According to official Taiwan statistics, their cumulative investment there through December 2005 totaled NT\$486.2 billion (or US\$15.1 billion at the exchange rate of NT\$32 per USD). This accounts for one-third of Taiwan's total registered investment in China. The cumulative earnings these companies repatriated back to Taiwan totaled NT\$38.7 billion (or US\$1.21 billion) equivalent to 7.9% of their total investment in China. Electronics firms have been major investors in China with cumulative investment there totaling NT\$222.5 billion (US\$6.95 billion), about 45.8% of Taiwan's total registered investment in China, accounting for three-quarters of total earnings repatriated to Taiwan. On the contrary, listed companies producing wires & cables, glass and paper, and department stores and chain stores have not reported any repatriated earnings.

Foreign Firms Participate in Financial Consolidation

15. A growing number of foreign investors are buying into Taiwan's financial institutions. Two foreign investors will obtain 27% of equity in Taishin Financial Holding through private placement. Newbridge Asia IV.L.P, a U. S. buyout company, will acquire 22.3% of Taishin equity for NT\$27 billion (or US\$0.84 billion). Nomura Securities Company of Japan will obtain 6.55% equity in Taishin for NT\$4 billion. In September 2005, Taishin won a bid for controlling interest in the state-owned Changhwa Commercial Bank. Recently, U.S. company AIG decided to acquire 100% equity in Taiwan's Central Insurance (non-life) for NT\$6 billion. The merger will make AIG (Taiwan) the third largest non-life insurance firm in Taiwan. Foreign purchases of local financial institutions included Citibank's 15% stake in Fubon, Prudential Life's 5% in E. Sun Bank, New York Life's 5% in Bank of Overseas Chinese, and GE Capital's 24.9% in Cosmos Bank (for NT\$9 billion or US\$0.28 billion).

Duty Assignment for Ministers without Portfolio

16. Taiwan's cabinet was reshuffled in late January. Vice

Premier Tsai Ing-wen has been assigned to chair the EY Economic and Finance Committee, which coordinates government policy on economic and financial issues. Duties assigned to ministers without portfolio handling economic and financial issues are as follows:

- Fu Li-yeh: social welfare;
- Hsu Chi-hsiung: cross-Strait, foreign affairs, and national defense;
- Lin Feng-ching: science and technology;
- Hu Sheng-cheng: matters related to the Ministry of Finance, the Financial Supervisory Commission, and National Development Fund;
- Ho Mei-yueh: affairs related to the Ministry of Economic Affairs, Council for Economic Planning and Development Council, Council of Agriculture, and Public Construction Commission, Fair Trade Commission, and Consumer Protection Commission.

Closer Economic Relations with India

17. Taiwan is (again) promoting a program to diversify Taiwan's investment away from China to other developing economies, this time, India. On February 11, the Taiwan-India Association (TIA) was established in Taipei. DPP Party Chairman Yu Shyi-kun was elected Chairman, and Minister without portfolio Ho Mei-yueh was appointed Secretary General. Economic Minister Hwang Ing-san and

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National Science Council Chairman Chen Chien-jen are TIA board members. Taiwan's state-owned Chinese Petroleum Corporation plans to build a petroleum refinery and a gasoline station network in India. The Taiwan government encourages local computer firms to invest in India. India is Taiwan's 26th largest trading partner. Two-way trade between these two nations in 2005 totaled US\$1.9 billion. Taiwan's investment in India as of January 2006 totaled only US\$14 million. Four similar associations have been set up to promote economic relations with Mongolia, Russia, Tibet, and five nations in Central Asia.

Large Foreign Portfolio Investment Flows to Taiwan

18. A large amount of foreign portfolio investment flowed into Asian nations since the second half of 2005. Among Asian nations (excluding Japan), Taiwan attracted the largest amount of foreign portfolio investment funds. As of December 2005, cumulative net foreign portfolio investment in Taiwan totaled US\$8.3 billion, compared to the US\$3.26 billion in China, US\$590 million in South Korea, US\$530 million in Singapore, and US\$200 million in Hong Kong. The amount in Japan was US\$14.68 billion. Foreign portfolio investors hold 32.41% equity in Taiwan's listed companies as of February 6, already exceeding the 28% target set for 2008 by the Council for Economic Planning and Development as part of plans to internationalize Taiwan's economy.

Taiwan Promotes Alternative Energies

19. Higher petroleum costs have prompted Taiwan to adopt a very ambitious, perhaps unrealistic, five-year alternative energy development program. Taiwan's Ministry of Economic Affairs (MOEA) will require that diesel oil should contain at least 5% bio-diesel made from recycled edible oil. Wind power generation in 2010 should increase to 4.2% of total power generation from 0.02% in 2004, and the share for geothermal power generation should increase from nothing to 0.1% during the same period. These targets may be realistic, but they are certainly ambitious. The planned installed power generation capacities for five alternative energies are as follows:

- Water: from 1.91 million kilo watts (MKW) to 2.168 MKW;
- Wind: from 0.009 MKW to 2.159 MKW;
- Solar: 0.00059 MKW to 0.021 MKW;
- Thermal: 0 to 0.005 MKW;

--Bio-energy: 4.673 MKW to 7.41 MKW.

National Communication Commission (NCC)

19. On February 17, Taiwan's Executive Yuan (EY) appointed 12 NCC members (three of the 12 NCC appointees subsequently refused to serve to protest political intervention). On February 22, the nine remaining appointees assumed their duties as NCC commissioners and elected Su Yung-chin (KMT) as NCC Chairman. According to the NCC Organic Law, Premier Su Tseng-chang is required to confirm the chairman elected and his deputies within seven days after election. The NCC was established as an independent body to handle broadcasting and communications issues. However, the EY has asked the Council of Grand Justices to review whether NCC organization violates Taiwan's Constitution.

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